

Livestock Market Issues: From Producer to Consumer

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MR. LARRY POPE: I'll pass on my thank you as well for asking somebody in the meat packing business to show up here this morning. And I told Jean Marie if I was the initial speaker in this panel, and I asked to be moved later in the panel because I thought my comments might be a touch more controversial. And so I was giving you some relaxation time. And those who might want to leave for lunch toward the end of my comments you might want to head out the room.

For those who don't know who Smithfield is, I'll be very quick and tell you we're a \$12 billion meat processor. Many of you know that we're largely in the pork business. We're the largest pork processor, 30 million hogs, and we raised 20 million hogs both in the U.S. and outside the U.S. We're the largest turkey processor, we're the largest cattle raiser with a joint venture with Five Rivers, with the Connie Group. And as well we're the fifth largest beef processor. So protein really matters to us, and corn really matters to us. But I'll talk about that in the second part of my comments.

One of the things Jean Marie asked me to speak to you about is about the linkage between the producer and the consumer, so I'm going to take a couple of minutes to at least give you my experience, because at Smithfield this is where agriculture meets the market. We are the people that sell the product every day. We are the people that are in the grocery store. We are the product at McDonald's when you go there to get your sausage biscuit or your bacon. It's our product that's being sold. We feel the real market.

As I thought about how far it is from rural Iowa to downtown New York you'd be shocked how short it is. That path is extremely short and extremely fast. But beyond that, the path is not much longer to Tokyo, Japan. And I was just recently in Beijing, China, hawking our products as you can imagine. And the path is so incredible. The linkage is so tight, it's almost scary for somebody like me to be standing here talking to people like yourself. We're in the food business, and we're selling this product every day. And the customers out there care an awful lot about the background of this product.

The conversations we have with customers today are radically – and I use the word “radically” different than a sale we made just a very few years ago. This recent record beef recall certainly has the media one more time picking at this time one more time. We feel like we're under a microscope every day with every pound we produce, and words like e-coli and mad cow and BSE and avian bird flu and salmonella and listeria and now a new product melamine – I mean consumers don't even know what these things mean, folks. And they don't know the difference between whether it's fed to poultry or it's fed to beef or it's fed to pork. They only know they are afraid of it.

And I think one of the hallmarks of everybody in this room is today the American consumer still trusts that stamp that says “USDA” on it. And my wife will buy that product because it says “USDA” stamped on that product; it's been approved by the government.

Today this government still has support among the people, but the media have made hay out of every small mishap that has occurred in agriculture. It makes it to the front page of USA Today and the 6:00 news, and I hear about it within hours, within hours of it happening anywhere in the United States. It's scary. It's very scary.

Let me tell me what a customer call is like today. Several years ago it was about price, quality, service and delivery: "Can you get it here on time?" I've got in my head, I brought one as an example to show you, here's the pamphlet I now take to customers. I could talk about the videos and the video and my 100-page social responsibility report that I have to issue.

But the conversation is, "Let's talk about your animal welfare policy; how do you handle those animals on the farm? Let's talk about your antibiotic usage policy. Let's talk about your environmental stewardship. Let's talk about how you trace the product back all the way from the grocery store shelf, all the way back through the farm, all the way back through the feed; you need to show us how you can do that."

"And you can do that within four hours. Within four hours you can tell us what's in that meat we just bought. We want to know about your total food safety program in all your plants. We want to know about your community involvement program across all the communities you do business with, and we want to know how you monitor those people who deliver that raw material to you. We want to know that. We're very interested in that. And after we get through those or eight or nine topics, if there's still time let's talk about price, quality and delivery."

But that's hard to get to. That's hard to get to because there's so much out there. So I now have to address 143 million pound beef recall. That takes up the time of our beef operations as we explain somebody else's issues, and in fact I stop at Starbucks yesterday morning. A little girl who knows me at Starbucks says, "Hi, Mr. Pope. And she goes, I heard about that beef recall. Should we be eating anymore beef?"

[Laughter]

That's the truth. That's a little girl who works in Starbucks. That's how much she knows about what we do and what agriculture does and what rural America does. She has no idea about testing procedures in plants. She has no idea about how antibiotics go on in farms. She sees CNN, she sees that same cow that's staggering that's shown so many times again and again and again with mad cow. And every time an incident like this happens, it hurts everybody in this room because people trust us, and people trust you just a little bit less. And they trust that USDA stamp a little bit less.

And when we go overseas, they trust the United States a little bit less. We all know the problems we're having trying to move this product out of this country, and I think we have the safest product in the world. In fact I told the little girl yesterday. I said, "I'm not the least bit worried about beef, and I've eaten it every day since 2003, and I have no concerns at all that I'm going to get mad cow disease." And she goes, "Oh, I don't know about that." I mean, that's the world in which we sell real products into every day.

And then I can say they want plant visits, then they want to go to farms, then they want to go to feed mills, and they want to know how you manufacture this. That's the real world. They want cleaner labels, they want it all natural, they want it all organic, they want very

little processing, and they want very little chemicals added to this product. They want a label that says “meat” and that’s about all they want to see in the package.

Well you know that’s not safe and that’s not the way you can distribute product. The producers are an important part of our success, and we are so tightly linked that we have to stay together, and we have to share information, and we have to coordinate, and we have to be involved with each other every day. I can’t trust that what comes in the back of our plants at any level is going to be satisfactory. We can’t accept that.

And producers all want to be independent. Everybody wants to run their farm, everybody wants to be their own businessman. Nobody wants anybody from the outside to come in there. Well the fact of the matter is, that isn’t the way we can do business going forward. We’re not trying to be the farmers. Smithfield is a meat processing company. We sell packaged meats to the consumer, bacon and hot dogs and hams and pork chops and steak every day. That’s what we want to do. But we spend so much of our time talking about how that product is manufactured and how that product has all of the steps that can be traced all the way back down that food chain.

And so I’d say that as farmers and as people interact, as many of you in this room with USDA interact with those producers, tell them, “It’s not us. The consumer is forcing us and is forcing the customer which is the retailer or the food service establishment” – all of you know some of the issues with McDonald’s. McDonald’s is a great customer of ours.

But then McDonald’s and Wal-Mart and Costco come to Smithfield, and then we have to change because the consumer is making them change, and they have to respond. And then we have to go back to the producers and say, “You have to change.” And so these producers have lots of reactions. “You’re increasing my costs and you’re making it more difficult.” Well, that’s the reality of the world we live in, and it is not going to get easier.

And now it’s gotten world-wide. I would suggest to you that our export and our international customers are tougher than our U.S. customers. I just spent five months. Some of you may have seen that we announced that we did a big sale of pork into mainland China, and we’re helping with some of that. Some of that pork is being distributed following the storm. Five months working with that country. And believe me, they came and checked. They didn’t just accept. It’s a very linked world.

And so my comment to all of us is, we’re all linked.

I’d be remiss if I didn’t take five minutes and change subjects on you. God knows Paul, I hope you’re right. The livestock industry is facing threats we’ve never seen before. Five dollar corn is a reality to us when we thought four dollar corn could never be a reality. Five dollar corn is now a reality. Nine dollar corn is a reality at Eastern Europe where we feed livestock. We’re seeing cost increases like we have never ever seen in this business. We’re seeing our production costs that are going to surpass levels they’ve ever been at. Now yes, we’ve had high priced corn for 30 days before. But we’ve never had something like this on a sustained basis.

Smithfield is in the processing business, so we’ll survive. We just announced just two days ago, we’re cutting back, we’re reducing our sow herds in the United States. The losses are so substantial that this industry cannot live in this. It’s not sustainable. If you

look at the pricing of livestock compared to world markets, the U.S. is at the bottom, not at the top. We're at the bottom. We're now below Brazil.

So we face a very real issue. We've got lots of supply. Price increases, food service and retail are extremely difficult to accomplish. There is lots of protein in the market. And farmers out there, I heard the euphoria this morning of all the speakers and the continuing euphoria of farm income. Well, it's not everywhere. It's not everywhere.

Livestock producers, the beef industry, many of you know, has been suffering for some time. The pork industry has now entered into that land of the losses and the land of the big losses, and the equity leaving the industry is staggering, and it's happening very, very quickly and going to get worse, not better. Not better, worse.

And I guess I passed to all of us a comment that I heard that food inflation is at modest levels. I think food inflation has got to go up. Everything that uses wheat, everything that uses corn, everything that uses corn syrup has got to go up. And beyond that, we're all using it in our packaging as well through petrochemicals. There is going to be real food inflation, in my opinion, in this country. It has to come. It has to come.

And we spend a modest amount of our disposable income on food, some of the lowest in the world, and so if that goes up to a couple percentage points, which is probably what we're talking about, 12 or 13 percent back to 15, maybe that's okay. Maybe that's the cost of getting off the dependence of foreign oil. But I think we need to be prepared for it. I think we need to be telling the American consumer that things are going up.

I mean it's criminal. I was joking this morning when I had lunch with my mother last Friday, and my mother said, "I can't afford your product anymore."

[Laughter]

That's my mother. And I said, "Mom, I hate to tell you, it's going up." The reality is, it is expensive and the reality is, it's going up. And I think that we shouldn't hide from that fact. We have an industry: On one side for the corn farmer, it's great; for the livestock grower, it's scary. It's very scary. It's life-threatening. His business is in jeopardy.

You see what's happened. Those of you who follow the industry know what's happening in Canada. It's happening worldwide. I was with a major producer night before last in Europe and they are seeing dramatic reductions in meat production. It's going to occur here as well.

So bottom line for us is, we're linked. It's a tough environment in the meat business, and I'm not here asking for anything in the farm bill. Just let us operate. I mean, the farm bill today wants to eliminate vertical integration which has been good for the business, been terrific for the business. But the farm bill talks about separating that so that you can't raise the livestock and process the livestock.

We're not asking for any subsidies; we're not asking for any special grants. We're asking for the opportunity to do business and that we pass on to those producers out there that life for the processor is tough. We understand where they're at. It's probably going to continue to be very tough. It's not all perfect in rural America if you're in livestock production. But we'll survive. We'll link together, we'll be close together, we'll share more information, and this industry will do well. I think we understand that.

I asked for those of you who influence others to remind the world that all this has got to be paid for, all this five dollar corn and six dollar corn. Who knows what happens if we have a bad weather event, seven dollar corn. It's got to be paid for. It's going to be paid by the American consumer, and we'll be the ones out there selling it. Thank you.

[Applause]